



Director of
Central
Intelligence

Approved For Release 2004/04/12 : CIA-RDP79T00975A031000060002-9

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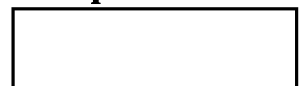


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National Intelligence Daily (Cable)

13 January 1979

Top Secret



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Special Analysis

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EUROPE-USSR-CHINA: Reaction to Arms Sales

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//Canada and Italy have called for NATO consultations on arms sales to China in reaction to recent letters from Soviet President Brezhnev warning against the sales. Achieving a NATO consensus, however, will not be easy.//

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//West Germany and the UK have also received messages from Brezhnev. The new letters are similar to the earlier one Brezhnev sent the British in November warning that such sales could have "serious consequences."//

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//Belgium, the Netherlands, and Norway have supported the call for consultation. The West Germans would probably be in favor but have not said so directly. All of the countries that favor consultation point to the important implications for the East-West relationship of arms sales to China.//

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//France continues to oppose consultations, while the UK has quietly begun bilateral discussions with members of the Alliance to establish new COCOM procedures for sales to China. France and the UK fear that NATO talks could threaten their prospective arms sales--such as the sale of the British Harrier Jet. The Italians, while equally interested in selling arms, would like to proceed from the security of a common NATO position.//

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IRAN: Food Supply Situation

Food supplies in Iran have remained essentially normal thus far, but distribution problems and diminishing stockpiles of some commodities are likely to cause sporadic shortages in the next few months. []

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The widespread strikes erupted at a time when food stocks were seasonally high; most of the important crops had already been harvested. In addition, food and other perishable imports were being cleared at leading ports at least until mid-December. []

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Long lines reported at Tehran bakeries at the end of the year were caused by official announcements that fuel supplies might be inadequate to operate area flour mills and bakeries. Stockpiles of such essentials as wheat, sugar, and rice are sufficient for several months. []

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Existing supplies of red meat and feedgrains are limited, however, and shortages are likely. If feedgrain imports are delayed, additional slaughtering might alleviate the situation, but at the expense of future production of milk, other dairy products, and meat. Fuel shortages could hinder internal distribution of foodstuffs, leading to spot shortages in major urban areas. []

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The government-controlled prices of bread, milk, meat, and sugar have not risen. Prices for many other items, including rice, vegetables, fruits, and beans, have gone up sharply, but this has not discouraged purchases when these items are available. Purchasing of foodstuffs has in fact risen dramatically over the past month as a result of hoarding. []

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The food situation could worsen in the next few months, even if some degree of political stability is restored. Current shipping delays are estimated at 15 to 20 days, but this could increase to 30 to 35 days. []

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JAPAN: Declining Trade Surplus

Despite its still enormous dollar trade surplus, Japan's foreign trade is responding to the massive appreciation of the yen and to government efforts to boost imports.

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Japan's trade surplus increased by \$8.1 billion, to \$25.4 billion, in 1978 largely because of a rise in dollar export prices brought on by the sharp appreciation of the yen. Export volume, however, remained about the same and, for the first time in more than a decade, Japan's share of world markets declined. This was the result of the appreciation of the yen, which brought about a decline in competitiveness, and, to a lesser extent, export restraint that the government had requested.

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Import volume grew 6 percent last year. Apparently because import prices declined as a result of the yen's appreciation, Japanese purchases of manufactures jumped between 15 and 20 percent. However, weak domestic demand for raw materials, food, and fuel prevented an even larger rise in imports. At the same time, \$2.2 billion of foreign goods attributed to the "emergency import" promotion scheme avoided an even larger surplus.

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//If the yen does not appreciate further this year, as many analysts now believe, the turnaround in trade volume will reduce Japan's 1979 trade surplus. Export volume this year is likely to be about constant again and, without further yen appreciation, sales abroad will probably increase only 7 percent because of hikes in dollar export prices. Dollar outlays for imports should grow about 14 percent because of a 5-percent increase in the volume of purchases and a 9-percent hike in import prices. Coupled with another \$2 billion in "emergency imports," this could reduce Japan's trade surplus to \$21.4 billion this year.//

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MALTA: Western Aid Proposal

//France, West Germany, and Italy plan to seek US participation in a plan to aid Malta economically after the British military withdrawal on 31 March. The West Europeans remain unenthusiastic about helping Malta but are likely to stress to the US their concern that the islands could become more open to Soviet influence without assured Western aid.//

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//The West Germans are apparently charged with drafting the terms of a demarche

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//The West Europeans agreed last week that a similar demarche should also be made to some other non-EC countries--Spain, Greece, Yugoslavia, and Tunisia--likely to have an interest in Malta's future. The French and the Italians are already in touch with Libya, not only to coordinate aid plans--Tripoli has offered "in principle" to assist Malta--but also to neutralize Maltese Prime Minister Mintoff's oft-repeated threat to align Malta exclusively with Libya should the West fail to meet his demands.//

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//Mediterranean experts from the EC, meanwhile, will meet on Monday to begin drafting a paper that will eventually be presented to the EC Foreign Ministers assessing the political and strategic importance of Malta to the West. The French, the Italians, and the West Germans hope this paper will help broaden support within the EC for financial aid to Malta.//

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NORTH KOREA: Comments on Kampuchea

North Korea, after some delay, yesterday publicly branded Vietnam's "massive military action" against Kampuchea a "crude violation" of international law, but stopped well short of threatening a break in party relations with the Vietnamese Communist leadership. North Korea had openly sided with the deposed Pol Pot regime during its border conflict with Vietnam over the past year. The North Koreans also accused Vietnam of following a "dominationist course"--a term that carries implicitly anti-Soviet overtones. This characterization indicates that there has been no slippage in North Korea's more pronounced pro-Chinese stance since the visit last May to North Korea of Chinese party leader Hua Guofeng (Hua Kuo-feng). Pyongyang's stance seems certain to cool any Soviet desire to move ahead with the long-rumored visit to the USSR of North Korean leader Kim Il-song.

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